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Moving Public Assistance Recipients Into the Labor Force, 1996-2000

A stylized graphic of a light brown leaf or feather shape, pointing to the right, which serves as a background for the "Electronic Report" text.

Electronic
Report

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*Food Assistance & Nutrition
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Moving Public Assistance Recipients Into the Labor Force, 1996-2000

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Abstract

Moving recipients of public assistance into jobs is a goal of the current system for providing public assistance to low-income households. Using scenario analysis with a computable general equilibrium model, ERS researchers examined some of the labor market impacts of the “welfare-to-work” provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The results show that, from 1996 to 2000, the influx of public assistance recipients into the labor force put downward wage pressure on low-skill occupations, making wage growth smaller than it would have been without the influx. At the same time, the influx added workers to the labor force, which contributed to economic growth. By expanding the labor force, the influx contributed 1 percentage point of real economic growth in terms of gross domestic product from 1996 through 2000.

Keywords: Public assistance, low-income households, Food Stamp Program, welfare reform, labor markets, low-skill, computable general equilibrium (CGE) model, scenario analysis.

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Summary

Moving recipients of public assistance into jobs is a goal of the current system for providing public assistance to low-income households. Using scenario analysis with a computable general equilibrium model, ERS researchers examined some of the labor market impacts from the “welfare-to-work” provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The results show that, from 1996 to 2000, the influx of public assistance recipients into the labor force put downward wage pressure on low-skill occupations, making wage growth smaller than it would have been without the influx. At the same time, the influx added workers to the labor force, which contributed 1 percentage point of real economic growth in terms of gross domestic product in the late 1990s.

Favorable labor-market conditions for entry-level and low-skill workers are important to the success of welfare reform and the current system of public assistance. In the late 1990s, the growing U.S. economy generated many new jobs, particularly in low-skill or entry-level occupations, where most public assistance recipients found job opportunities. The large influx of recipients moving into the labor force during that period would be expected to affect economic growth and the wages and employment opportunities of other low-skill workers.

ERS researchers set out to examine some of the labor market impacts from the “welfare-to-work” provisions of PRWORA from 1996 to 2000, and to determine how changes in macroeconomic conditions affect labor markets and public assistance. The authors used a computable general equilibrium (CGE) model to assess the magnitude of the impact of moving public assistance recipients into the labor force on the low-skill labor market under alternative macroeconomic conditions.

The results show that the influx of public assistance recipients into the labor force from 1996 through 2000 put wage pressure on low-skill occupations. When the influx is isolated from other macroeconomic changes occurring during the period, the pressure is measured as a decreased real wage. The authors estimated a movement of 2.4 million recipients of public assistance into the labor force from 1996 through 2000. If one assumes that all of the labor supply increase were in low-skill jobs, real wages for those types of jobs would be depressed by as much as 7.2 percent. If one assumes that the jobs taken by the new workers matched the occupations of already employed low-income workers, real wages would decline by only 2.3 percent for low-skill jobs.

When the labor force influx is distributed over a broad range of occupations and there is strong economic growth as in 1996-2000, the wage pressure is measured as reduced wage growth. Wage growth is reduced by 2.5 percentage points for low-skill workers, lowering their wage growth from 6.9 percent to 4.4 percent. However, the larger labor force that results from public assistance recipients moving into the labor force contributes to the strong economic growth, accounting for 1 percentage point of real gross domestic product growth over 1996-2000.

Economic growth is not just good for the economy overall, but good for low-skill jobs. The particularly strong growth of 1996-2000 created a large number of low-skill jobs and allowed many public assistance recipients to move into the workforce. The movement of public assistance recipients into the workforce supported the economic growth, while also reducing real wage growth for low-skill workers. The wage impact is a “spillover effect,” or unintended consequence of a welfare-to-work system of public assistance. These findings are useful for the formulation and evaluation of public assistance programs because they provide insight into the low-skill labor market.

Introduction

One goal of the system for providing public assistance to low-income households, as legislated in the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, is to move public assistance recipients into jobs. Consequently, labor market conditions for entry-level and low-skill workers are important to the success of welfare reform and public assistance.

In 1996, the year PRWORA was enacted, the U.S. labor market began to tighten in the economic expansion of 1991-2001.^{1,2} This was a good time to implement a welfare-to-work policy because the growing U.S. economy generated many new jobs, particularly in low-skill or entry-level occupations, which are the primary job opportunities for most public assistance recipients. According to this study, employment of public assistance recipients during this period contributed significantly to employment growth in low-skill occupations, which contributed to growth in the economy. However, the movement of these recipients into the labor force also affected the wages and employment opportunities of other low-skill workers. These “spillover effects” are indirect consequences of welfare reform (Bartik, 2002).

The welfare-to-work focus of public assistance since welfare reform in 1996 raises three important questions, which this study addresses:

- (1) How did the influx of public assistance recipients into the labor force affect the labor market from 1996 through 2000?
- (2) How do alternative macroeconomic conditions affect the ability of labor markets to absorb the new workers and consequently affect the effectiveness of public assistance?
- (3) Were public assistance recipients who moved into the workforce better off, by attaining higher incomes, than when they received public assistance?

To address these questions, this study focuses on recipients of the Food Stamp Program (FSP) and Aid to Families with Dependent Children (AFDC) or Temporary Assistance for Needy Families (TANF), and on the low-skill or entry-level jobs for which the majority of the recipients tend to be qualified. The FSP and AFDC-TANF are the two public assistance programs for which caseloads are most influenced by labor market conditions and have been affected most by the welfare-to-work focus of public assistance. Though the work requirements of welfare reform directly affect only a small share of the FSP caseload, able-bodied adults without dependents (ABAWDs), the work requirements indirectly affect much of the caseload because participants who leave AFDC-TANF to work either leave the FSP as well or change their work status while continuing to participate in the FSP.

We use scenario analysis with a computable general equilibrium (CGE) model rich in labor market detail that distinguishes labor supply (workers) and demand (jobs) by skill levels to analyze the labor market impacts of recipients of public assistance moving into the labor force under alternative macroeconomic conditions. In addition, we developed a household component of the model so that we could distinguish the impacts on low-income households that receive public assistance from the impacts on low-income households that do not receive public assistance.

¹PRWORA sets some eligibility conditions, including a work rule. States are required to achieve minimum rates of work participation. Creditable work activities and required hours of work participation are specified. Laws governing the Temporary Assistance for Needy Families (TANF) prescribe penalties against States that do not meet minimum work participation rates. With respect to benefits, most States have work incentives such that a portion of earnings is disregarded in calculating benefits.

²In a *tight* labor market, jobs are more plentiful relative to job seekers. Measures of tightness include the unemployment, quit, layoff, and wage rates. Our preferred indicator of labor market tightness is the total compensation (wages/salaries plus benefits) as measured by the Employment Cost Index (ECI). In 1996, the ECI for total compensation started to increase after steady declines from 1991 to 1995.